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IN THE
Supreme Court of the United States
OCTOBER TERM, 1976

No. 76-390

ICI AMERICA INC., *Petitioner*

v.

MORaine PRODUCTS, *Respondent*

On Petition for a Writ of Certiorari to the United States Court
of Appeals for the Seventh Circuit

REPLY BRIEF OF PETITIONER ICI AMERICA INC.

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Respondent Moraine on pages 5, 9 and 10 of its brief in opposition, cites seven cases (not dealt with in ICI America's petition, because petitioner deemed *Lear v. Adkins* dispositive) for the propositions that the decision below does not conflict with the decisions of other Courts of Appeals and that the petition does not involve an important federal question. These cases relate only to petitioner's second question, involving the policy laid down in *Lear*, and have no bearing at all on peti-

tioner's first question, whether the loss of anticipated royalties for the licensing of an invalid patent to potential licensees constitutes a compensable injury under Section 4 of the Clayton Act. As to this first question, therefore, ICI America rests on the presentation made on pages 8 to 13 of its petition.

Moraine's brief, in discussing the *Lear* question, curiously neglects to mention the related Sixth Circuit decision in *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F.2d 1 (6 Cir. 1974) (App. 36a to 48a), which involved the same parties and contained an extended discussion of *Lear* (see App. 41a to 46a). From that discussion alone, the conclusion is clear that the decision of the Seventh Circuit below, in holding that a jury might possibly find ICI-Atlas liable for royalties on the worthless Rider Patent accruing after the patent issued and before it was invalidated, conflicts with the policies laid down in *Lear*. And that conclusion is confirmed by the very cases on which Moraine relies.

Under *Lear*, a licensee who challenges a patent "must be permitted to avoid the payment of all royalties accruing after [the] patent issued if [it] can prove invalidity," see *Atlas Chemical Industries, Inc. v. Moraine Products*, *supra*, App. 42a-45a, citing *Lear v. Adkins*, 395 U.S. 653, 674 (1969); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 488 (1974); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1260 (6 Cir. 1972) (*Troxel I*); *Painton & Co. Ltd. v. Bourns, Inc.*, 442 F.2d 216, 226 (2 Cir. 1971). See, in accord, *American Sterilizer Co. v. Sybron Corp.*, 526 F.2d 542, 547-548 (3 Cir. 1975).

ICI-Atlas, as a licensee who has actively and successfully attacked the validity of the Rider Patent, has brought the kind of suit authorized by *Lear*, and may

therefore avoid any further payment of royalties to Moraine under its license agreement, see *Atlas Chemical Industries, Inc. v. Moraine Products*, *supra*, App. 44a-45a. In accord, *P.P.G. Industries, Inc. v. Westwood Chemical, Inc.*, 530 F.2d 700, 705 (6 Cir. 1976), *cert. denied*, 45 USLW 3250 (Oct. 4, 1976); *American Sterilizer Co. v. Sybron Corp.*, *supra*, at 548. ICI America has on pages 14 to 16 of its petition shown why, once a patent has been judicially declared valueless, a similar immunity from the payment of royalties should be accorded in an antitrust suit predicated on the potential loss of royalties from the invalidated patent.

ICI-Atlas, the licensee in this case, obviously stands on a different footing than the licensee in *Troxel I*, *supra*, and *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F.2d 968, 973 (6 Cir. 1973) (*Troxel II*), *cert. denied*, 416 U.S. 939 (1974), who "was doing nothing to contest the validity of the patent" and became "an incidental beneficiary to the invalidity established in the litigation initiated and prosecuted by another party in another circuit," see *Atlas Chemical Products, Inc. v. Moraine Products*, *supra*, App. 43a. In accord, *P.P.G. Industries, Inc. v. Westwood Chemical, Inc.*, *supra*; *American Sterilizer Co. v. Sybron Corp.*, *supra*. Such inactive licensees were doing nothing to accomplish the policy of *Lear v. Adkins* to obtain an early adjudication of patent validity.

Similarly, this petition involves no question of the licensee securing a refund of royalties already paid to the licensor, which was crucial to the decisions in *Troxel I*, *supra*, at pp. 1257, 1259, and *Troxel II*, *supra*, at p. 973, see *Atlas Chemical Industries, Inc. v. Moraine Products*, *supra*, App. 44a-46a, and in *Zenith Labora-*

tories, Inc. v. Carter-Wallace, Inc., 530 F.2d 508, 513 (3 Cir. 1976), *cert. denied*, 45 USLW 3250 (Oct. 4, 1976).^{*} In this case, ICI-Atlas has paid to Moraine royalties on the Rider Patent amounting to \$347,340.23, covering the period January 1, 1969 through March 31, 1970, payments which this petition does not seek to recoup.

The factual situations in the two other Seventh Circuit cases cited in Moraine's brief, *Kraly v. National Distillers and Chemical Corp.*, 502 F.2d 1366 (1974) and *Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F.2d 974 (1973), differ from that presented here, so that they have no bearing on the correctness of the decision below. However, the Sixth Circuit in the *Atlas Chemical Industries* case noted (see App. 45a, footnote 2) that the decision in *Kraly* conflicted with the policy of *Lear v. Adkins*. *Kraly* would, contrary both to *Lear* and the *P.P.G. Industries* case,¹ seem to require a licensee to terminate its license agreement as a condition to legally terminating royalty payments under the agreement. Moreover, the petition appears to reinstate the licensee estoppel doctrine overruled by *Lear* in the form of a doctrine of estoppel by patent marking, a frequent and competitively innocuous term in patent license agreements.

The *Ransburg* decision, upholding the enforcement of a settlement contract for royalties for the past infringement of a patent subsequently found to be non-infringed, has a stronger base than *Kraly*, since the court justified it as falling within the judicial policy

¹ The question raised on certiorari by the patentee in the ^{P.P.G.}~~Zenith~~ ~~Industries-Laboratories~~ case was whether a licensee that terminated royalty payments during a challenge of patent validity was also required to terminate its license, an issue which the ~~Third~~ ^{Third} Circuit decided in favor of the licensee. This question is quite remote from the question involved here.

favoring the expedient and orderly settlement of disputes. However, it seems opposed to the public policy of not exacting royalties for ideas in the public domain.

Definitely in *Kraly*, and quite possibly in *Ransburg*, the Seventh Circuit has enforced private contracts in a manner conflicting with the public policy underlying *Lear*, and to have disregarded the sound admonition that contractual "enforceability cannot be determined without reference to matters beyond the private interests of the litigants", see *Business Forms Finishing Service, Inc. v. Carson*, 452 F.2d 70, 74 (7 Cir. 1971). Both the *Kraly* and *Ransburg* cases point to areas in which the policy of *Lear* is unsettled, which supplies an added ground for this Court assuming jurisdiction of this case—to clarify the application of *Lear* to those unsettled areas.

Moraine, in its opposition brief, attempts to shore up a lame case by belaboring irrelevant points that are not "material to the consideration" of the question presented, see Rule 19(e) of this Court. Thus, the brief alleges (page 5) that "ICI-Atlas conspired to monopolize the entire immense market for the only products found by the Food and Drug Administration to be effective in the treatment of flatulence (gas) in humans." This Court is respectfully referred to pages 9 and 10 of ICI America's brief in opposition to Moraine's cross-petition for certiorari for a showing of the non-monopolistic and in fact competitive structure of the market in which ICI-Atlas operates.

Moraine also, as in its cross-petition, turns to the irrelevant theme of Atlas' alleged misconduct with respect to the Rider Patent. Moraine's statement, despite its length, does not accurately describe why the Sixth Circuit reversed the District Court; it did not do

so merely because "Moraine had not prayed for damages in a formal pleading", but because Atlas "was deprived of notice as to the nature of the claim or the relief that might be due." Atlas needed this notice "so as to enable [it] to answer and prepare for trial". App. 47a. A procedural deficiency of this nature would militate against acceptance of the District Court's findings, even if relevant.²

Much as petitioner would like to show the reasonableness and fairness of its conduct vis a vis the Rider Patent, this would require tracing the strained dealings between Moraine and ICI-Atlas for over a decade. Petitioner feels that it would transgress unduly upon the time and patience of this Court to bring before it such an irrelevant private quarrel between the parties, which is wholly extraneous to the important public policy issues raised by the petition.

Respectfully submitted,

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² Upon the remand of the case from the Sixth Circuit to the District Court, Moraine reasserted the charge of ICI-Atlas' alleged misconduct in a counterclaim, which the District Court dismissed on the ground that the Circuit Court's ruling required it to do so.